B4750-14

# Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday (Noon) July 20, 1984

The long-term credit markets have rallied over the past several weeks. These markets have ignored news that the economy is not weakening. The preliminary real GNP figure to be released early next week is expected to register a somewhat stronger gain than the 5.7% "flash" estimate. And despite news that would generally weigh heavily on the markets, improvement has occurred. What are market participants reacting to? What do they think is going to happen?

Politics as a factor has stepped to the fore. With the Democratic Convention under way (and now over), participants have thought again of the political pressure on the Fed to ease. Monetary policy is not made in a vacuum. The FOMC is aware of political pressures. However, this doesn't mean that the Fed caves in. It means that policy must be conducted in a careful, sophisticated fashion--especially if the Fed feels it must tighten further in an election year. Nonetheless, the proximity of the election does temper what the Fed can do. We will have to listen carefully to Mr. Volcker in his "Humphrey-Hawkins" testimony this coming Wednesday for a clue on what the Fed will do.

Inflation is a factor that seems to indicate the Fed can ease. All measures of price inflation are low; the dollar is strong. But the Fed is not looking at these popular measures of inflation. Rather it is focused on the primary determinants of inflation. Money and credit growth are rapid, too rapid. Capacity utilization rates show little slack left in the economy. Easing policy would weaken the dollar and exacerbate inflation. The Fed has therefore kept its policy tight. Given further strong economic growth, further tightness doesn't seem out of the question at all.

Financial distress is still a factor that tilts toward easing. Funding problems at Continental Illinois have deepened, which tends to make the markets somewhat nervous. Nonetheless, bank earnings statements have been generally positive considering the stricter accounting methods now being applied for problem loans.

The LDCs are grappling with the problems of falling commodity prices and higher interest rates. But nothing in the LDC picture has really changed.

The Fed is weighing these factors, as it always does. It must be impressed with the strength of the economy. Fed funds have continued strong in the face of this growth. The borrowing figures at the Fed's discount window, however, show a mixed pattern. In the last CRA period, banks' adjusted gross borrowings from the Fed were at their lowest level since March 14 of this year. Does this mean that the Fed has eased? Don't bet on it, at least not yet. Fed funds continue firm, and they seem a better reflection of current policy. Banks pay and earn Fed funds rates. Other money market rates also key off of the rates on Fed funds. Little seems to have changed at the short-term end of the credit markets, despite the recent rally at the long end. For a second opinion, in fact, just ask the foreign exchange market.

Robert A. Brusca

# Irving Trust

# Market Yields

| | 7/20/84 (Noon) | Week Ago | Year Ago |
|---|---|---|---|
| **Prime Lending Rate at Irving Trust Company** | 13.00% | 13.00% | 10.50% |
| Effective since | 6/25/84 | | |
| **Discount Rate at Federal Reserve Bank** | 9.00 | 9.00 | 8.50 |
| **Federal Funds** | 11.00 | 10.81 | 9.38 |
| **Repurchase Agreements** | 10.65 | 10.75 | 9.20 |
| **U.S. Treasury Issues** | | | |
| **Bills** | | | |
| 3 months | 10.52 | 10.33 | 9.41 |
| 6 months | 11.25 | 11.10 | 9.81 |
| 1 year | 11.93 | 11.90 | 10.15 |
| **Coupons** | | | |
| 2 years | 12.78 | 12.81 | 10.73 |
| 4 years | 13.09 | 13.10 | 11.13 |
| 7 years | 13.23 | 13.23 | 11.33 |
| 10 years | 13.24 | 13.24 | 11.36 |
| **Long Bond** | 13.08 | 13.05 | 11.40 |
| **Negotiable Certificates of Deposit-Secondary Market** | | | |
| 1 month | 11.15 | 11.15 | 9.30 |
| 3 months | 11.50 | 11.48 | 9.45 |
| 6 months | 12.05 | 12.05 | 9.95 |
| 1 year | 12.70 | 12.80 | 10.35 |
| **Banker's Acceptances** | | | |
| 1 month | 11.34 | 11.41 | 9.32 |
| 3 months | 11.74 | 11.75 | 9.57 |
| 6 months | 12.28 | 12.27 | 9.92 |
| **Eurodollar Deposits** | | | |
| 1 month | 11.56 | 11.38 | 9.63 |
| 2 months | 11.75 | 11.75 | 9.81 |
| 3 months | 11.93 | 11.88 | 9.94 |
| **Commercial Paper - Prime Names** | | | |
| **Directly placed by:** | | | |
| **Finance Companies** | | | |
| 1 week | 10.67 | 10.16 | 9.14 |
| 1 month | 11.31 | 11.31 | 9.33 |
| 3 months | 11.25 | 11.31 | 9.60 |
| **Bank Holding Companies** | | | |
| 1 month | 11.00 | 10.89 | 9.07 |
| **Dealer Placed:** | | | |
| 3 months | 11.84 | 11.84 | 9.58 |
| **New AA Corporate Utility Bond** | 14.38 | 14.38 | 12.60 |
| **Tax Exempt** | | | |
| 6 month Project Notes | 5.85 | 5.80 | 4.95 |
| 1 year AAA Bond | 6.40 | 6.40 | 5.10 |
| 5 year AAA Bond | 8.05 | 8.10 | 7.00 |
| 20 year AAA Bond | 10.00 | 10.05 | 9.00 |

This information represents prevailing market yields.
**It should not be construed as an offering.**
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232261
W.U.I. 62832 • French 82629